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Practical Considerations for a National Cambodian Carbon Policy

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Outline

1. Trends in the global carbon markets
2. International examples of Clean Development Mechanism (CDM) and carbon policies
3. The carbon offset context in Cambodia
4. Issues to be considered for a national carbon policy in Cambodia

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1. **Trends in the global carbon markets**
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We're in a severe global financial crisis...

- ❑ Industrialised countries are indebted and have few resources to implement domestically greenhouse gas mitigation, or to invest abroad in carbon offset projects.
- ❑ The political priorities are job creations and/or the implementation of austerity measures to reduce debt.
- ❑ There is growing national concern about the economic costs of emission reduction measures.
- ❑ The carbon markets and the climate change sector are integrated in the global economy.
- ❑ Market-based solutions and market-based mechanisms are sensitive to the global economic slowdown and credit crunch.

International negotiations have made little progress towards a successor regime of the Kyoto Protocol

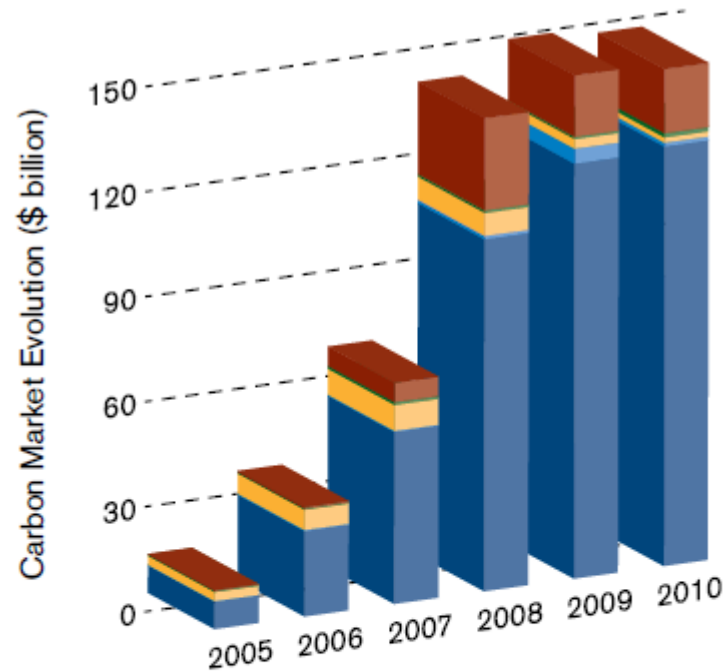
- ❑ The first commitment period of the Kyoto Protocol will end by 2012.
- ❑ The future of the Kyoto Protocol and of the international climate regime is uncertain.



Markets don't like uncertainties...

❑ After five years of growth, the total value of the global carbon market stagnated in 2010.

❑ The market volume and value of project transactions fell by about 50% for Certified Emission Reductions (CERs).



Sources: World Bank, Thomson Reuters Point Carbon, Bloomberg New Energy Finance, and Ecosystem Marketplace

The carbon market is a buyers' market

- ❑ There is low demand and low supply of post 2012 CERs.
- ❑ Fewer new CDM projects are started as buyers prefer cheap, low risk and already issued CERs.



But there are opportunities for quality carbon offsets from Cambodia...

- ❑ After 2012, offsets sourced in least developed countries may still be eligible for the EU ETS (European Union Emissions Trading Scheme).
- ❑ Clean energy projects from LDCs remain a rare commodity and may be sought after by some ethically minded buyers.
- ❑ High quality carbon offsets from LDCs may obtain premium prices.

Voluntary Carbon markets should not be underestimated

- ❑ Buyers do not have a legal obligation to offset their emissions, but voluntarily decide to buy carbon credits.
- ❑ Volumes are very small when compared to compliance markets (less than a percent), but the voluntary market segment is experiencing rapid growth (more than 30% in 2009-2010).
- ❑ There has been a rapid increase in credits from REDD (Reducing Emissions from Deforestation and Forest Degradation).

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China's CDM and Carbon Policies (1)



- ❑ “Measures for Operation and Management of Clean Development Mechanism Projects in China” (26 articles).
- ❑ The priority areas for CDM projects in China are energy efficiency, renewable energy, and methane recovery.
- ❑ Only Chinese funded or Chinese-holding enterprises (Chinese majority of capital) are eligible to conduct CDM projects (with foreign partners if necessary).

China's CDM and Carbon Policies (2)



- ☐ The Government of China owns the emission reduction resource;
- ☐ The project developer owns the emission reductions;
- ☐ The Government of China and the project developer jointly own the revenues from CERs.

- ☐ The Government of China takes:
 - ☐ 65% of CER transfer benefit from HFC and PFC (to be decreased to 5%);
 - ☐ 30% CER transfer benefit from N₂O project (to be decreased to 10%);
 - ☐ 2% CER transfer benefit from CDM projects in priority areas and forestry.

- ☐ The government share of CER revenues are collected by the China CDM Fund to support climate change activities.

Vietnam's CDM and Carbon Policies (1)

- ❑ “Decision on a Number of Financial Mechanisms and Policies applicable to Investment Projects under Clean Development Mechanism” (Decision 130, August 2007)
- ❑ Domains in which CDM projects are formulated and executed: 1) energy efficiency, 2) renewable energy, 3) Fuel switching, 4) Gas recovery from oil drilling, 5) Methane recovery from waste and coal, 6) Afforestation or reforestation, 7) Methane reduction for animal husbandry and cultivation; 8. others.



Vietnam's CDM and Carbon Policies (2)

- ❑ Incentives for CDM projects:
 - ❑ Fast depreciation of fixed assets
 - ❑ Exemptions for import tax
 - ❑ Exemptions for land use levy
 - ❑ Price subsidies on products used by the project
- ❑ The project developers own the CERs.
- ❑ The project developers must register the receipt, allocation and sale of CERs with the Vietnam Environmental Protection Fund.
- ❑ The Vietnam Environmental Protection Fund collects CERs sale fees (1.2 to 2%).
- ❑ Fees must be fully paid before the transfer of CERs.



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Carbon Projects in Cambodia

❑ Clean Development Mechanism Projects (CDM)

- 7 approved by Cambodia's Designated National Authority
- 5 registered with the CDM Executive Board
 - 3 wastewater methane capture, 1 rice husk cogeneration, 1 heat recovery
 - 1 Large Scale, 4 Small Scale
 - Expected annual emission reductions from 6 to 52 kt CO₂

❑ Voluntary carbon offsets

- No legal requirement for project developers to inform the DNA
- At least 4 projects
 - improved cookstoves, biogas digesters, rice husk gasifiers, community forestry



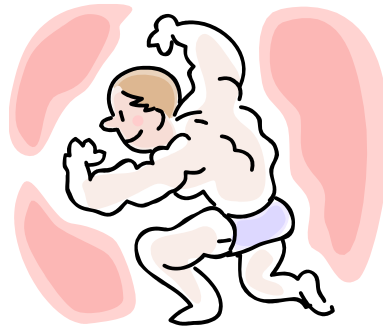
Low Volumes of Expensive Carbon Credits

- ❑ There are few CDM and voluntary carbon market projects in Cambodia.
- ❑ CDM projects are concentrated in large industrialised countries (China, India, Brazil, Mexico etc.) where carbon credits can be produced cheaply.
- ❑ The potential for carbon offset in Cambodia consists of small decentralised projects, which involves higher management and administration costs per credit produced.

Strengths of the Cambodian Carbon Offset Context

☐ Strengths:

- No clear national regulatory framework for carbon credits
- Working CDM governance structure (well functioning DNA with clear procedures)
- Growing interest among local NGOs and private sector firms
- No taxation of carbon credits produced in Cambodia
- Ownership of carbon credits by project developers



Gaps in the Cambodian Carbon Offset Context

□ Gaps

- No clear national regulatory framework for carbon credits
- Limited awareness of technologies for sustainable energy (renewable energies, energy efficiency) and of carbon sequestration in forestry
- Limited capacity and experience to develop carbon offset projects
- No private financing available for project developers (limited awareness among financial institutions)
- No public finance (grants, investments etc.) available for project development
- Limited public support for project development (including in-kind)

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Who owns Carbon Credits?

- ❑ **Example 1 – Chruk Skome Swine Farm:** Methane is captured from the wastewater and burnt to produce electricity. Land, equipment, and other project assets belong to the farm. The owner pays for all CDM administration costs.



- ❑ **Example 2 – Prei Reul Forestry:** A community forestry project where villagers have communal rights of land owned by the State. Training, monitoring, equipment and other project assets are provided by an international NGO. Villagers provide labour.



- ❑ **Example 3 – Teuk Tchou Hydro:** The State with foreign private developers builds and operates a hydroelectricity dam on a river. The water is used for irrigation by local farmers.



Ownership of CERs in Cambodia

- ❑ Clarification of the property rights of project participants (developers, local communities, local authorities etc.) may give investors confidence that CDM projects can be safely implemented in Cambodia.
- ❑ Under international law there is a presumption that Cambodia has a sovereign right to the GHG reductions achieved by CDM projects hosted within its jurisdiction as well as the CERs.
- ❑ In the absence of domestic laws, it may be assumed that these rights are transferred by Cambodia to CDM project participants by the approval of project by the Designated National Authority.

What domestic policies can support carbon offset projects in Cambodia?

- ❑ It is hard to develop profitable carbon offset projects with high sustainable development benefits.
- ❑ Taxation of carbon offset projects (CDM and voluntary) needs clarification:
 - ❑ Fiscal incentives, exemptions from taxes (income tax, VAT, levees on credit sales) and import duties?
 - ❑ Subsidies and preferential treatment for projects with high sustainable development benefits (should there be a priority list)?
 - ❑ How should revenues from CERs/VERs, project assets, and business revenues be taxed? Should there be preferential tax treatment?

Government can help

- ❑ Government agencies can also help by:
 - ❑ Providing free access to available data on energy production and forest inventory (for the calculations of emission reductions and baselines)
 - ❑ Help liaise with local authorities and other stakeholders
 - ❑ Share experience of carbon offset activities in Cambodia
 - ❑ Promote Cambodian carbon offset activities with foreign buyers and investors
 - ❑ Provide clarification on official government position with regards to carbon policies



Conclusions

- ❑ There is only so much a carbon credit policy can achieve... since market based mechanisms depend on the broader economic and investment context of Cambodia.
- ❑ Is a complex layer of carbon legislation necessary or a clarification of taxation and ownership rights more appropriate?
- ❑ Consultations with local developers and stakeholders (NGOs, private sector firms, beneficiary communities, etc...) on the key elements of a carbon policy may provide a participatory basis for future legislation.

For Additional Information

Implementing CDM projects – Guidebook to Host Country Legal Issues. UNEP Risoe Centre.

Clean Development Mechanism in China. Department of Climate Change National Development and Reform Commission.

State of the Voluntary Carbon Markets 2011. Ecosystem Market Place & Bloomberg New Energy Finance.

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THANK YOU !

For more information:
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